



Reasonable Compensation Report

Sarah Johnson of Johnson Consulting LLC

Tax Year 2026

April 3, 2026

Prepared by Ocean Tax Advisors

Source: Bureau of Labor Statistics OES May 2024 wage data, ECI-adjusted (Q4 2025)

Executive Summary

Sarah Johnson · Johnson Consulting LLC · Tax Year 2026

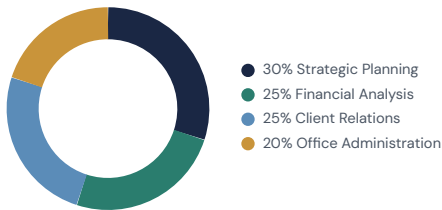
- The estimated annual Reasonable Compensation using the **Cost Approach** is **\$142,500**, based on 4 task categories in San Francisco County, California.
- This figure represents the cost to replace the duties you perform, priced at local market rates based on your experience level, working 40 hours per week (2080 hours/year).

Your estimated annual Reasonable Compensation (Cost Approach)

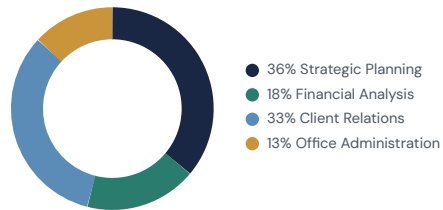
\$142,500

This report provides a reasonable estimate of the value of services rendered to your S Corporation based on the duties and responsibilities that you perform annually. The calculated salary was determined based on the type of work performed, the skill level, and the number of hours worked annually in **San Francisco County, California**.

Your Time



Your Compensation



This report is generated by WageProof's reasonable compensation methodology engine using Bureau of Labor Statistics data. It does not constitute tax, legal, or financial advice. It has not been reviewed by a CPA, attorney, or valuation professional. Consult a qualified tax advisor before making compensation decisions.

Cost Approach Detail

Task-by-task compensation breakdown

Executive & Management

30% of total hours | 624 hours per year | 36.1% of total compensation

TASK	PROFICIENCY	% CAT	% TOTAL	HOURS/YR	HOURLY	ANNUAL
Strategic Planning	Experienced (7-15 years)	100%	30%	624	\$82.45	\$51,449

Financial

25% of total hours | 520 hours per year | 17.9% of total compensation

TASK	PROFICIENCY	% CAT	% TOTAL	HOURS/YR	HOURLY	ANNUAL
Financial Analysis	Competent (3-7 years)	100%	25%	520	\$48.96	\$25,459

Sales & Marketing

25% of total hours | 520 hours per year | 32.9% of total compensation

TASK	PROFICIENCY	% CAT	% TOTAL	HOURS/YR	HOURLY	ANNUAL
Client Relations	Experienced (7-15 years)	100%	25%	520	\$90.15	\$46,878

Administrative

20% of total hours | 416 hours per year | 13.1% of total compensation

TASK	PROFICIENCY	% CAT	% TOTAL	HOURS/YR	HOURLY	ANNUAL
Office Administration	Competent (3-7 years)	100%	20%	416	\$44.94	\$18,695

Business Summary

Calculated For:	Sarah Johnson
Company:	Johnson Consulting LLC
Entity Type:	LLC taxed as S-Corp
Report Year:	2026
Location:	San Francisco County, California
Hours Worked:	2080 per year (40 hrs/week)
Report Date:	April 3, 2026
Wage Data:	BLS OES May 2024, adjusted +4.32% for wage growth
ECI Adjustment:	+4.32% (3.7% annual rate × 14 months, Q4 2025)

OES wage estimates are collected annually in May and published approximately 10 months later. The most recent available data at the time of this report was the May 2024 release. Wages have been adjusted forward 14 months to reflect estimated wage growth, using the Bureau of Labor Statistics Employment Cost Index (Q4 2025: 3.7% annual rate).

Methodology & Sources

COST APPROACH

The Cost Approach (also called the "Many Hats" method) decomposes the owner's work into component tasks and prices each independently using BLS wage data at the appropriate skill level and geographic location. This is the methodology used in this report.

The Market Approach (single-occupation comparison) was considered but determined to be less applicable for this analysis. When an owner performs multiple distinct business functions spanning different occupations and skill levels, the Cost Approach more accurately reflects the economic value of the services rendered. This is consistent with the IRS Job Aid for Valuation Professionals, which describes the Cost Approach as the "Replacement Cost" method.

DATA CURRENCY

Wage data from the BLS OES May 2024 release has been adjusted forward 14 months using the Employment Cost Index for wages and salaries, private industry workers (BLS Series CIU2020000000000001). The Q4 2025 ECI showed a 3.7% annual increase in wages. This pro-rated adjustment of 4.32% has been applied to each wage figure based on its underlying data vintage. Where wage data was sourced from a prior survey year via the fallback chain, the adjustment period reflects the actual data year used. This methodology follows the approach described by the Bureau of Labor Statistics in "Aging Wage Survey Data Using the Employment Cost Index" (Monthly Labor Review).

PROFICIENCY CALIBRATION

Each task is priced at a BLS wage percentile based on the owner's experience level in that function:

LEVEL	EXPERIENCE	BLS PERCENTILE	OES COLUMN
Entry-Level	< 1 year	10th	hourly_10
Developing	1-3 years	25th	hourly_25
Competent	3-7 years	50th (median)	hourly_median
Experienced	7-15 years	75th	hourly_75
Expert	15+ years	90th	hourly_90

HOURS CAP

Following *McAlary v. Commissioner* (T.C. Summary Opinion 2013-62), hours above 2,080/year are capped at full-time equivalent.

REFERENCES

- IRS Fact Sheet 2008-25: Wage Compensation for S Corporation Officers
- IRS Job Aid for Valuation Professionals
- IRC §3121(d)(1)
- *McAlary v. Commissioner*, T.C. Summary Opinion 2013-62
- BLS Occupational Employment and Wage Statistics (OES), May 2024
- BLS Employment Cost Index (ECI), Series CIU202000000000001
- BLS Monthly Labor Review: Aging Wage Survey Data Using the Employment Cost Index

For a detailed explanation of our methodology, visit www.wageproof.com/methodology

Other Considerations

For the majority of shareholder-employees, the figure calculated in this report should not require adjustments. However, these circumstances may warrant consideration:

- Compensation of Non-Owner Employees
- Salary History
- Travel Requirements
- Personal Guarantee of Debt
- Key Relationships and/or Contracts
- Financial Condition of Company
- Distribution History

Courts have used various factors to stress test Reasonable Compensation figures:

1. IRS Nine Factors: IRS Fact Sheet 2008-25
2. LabelGraphics, Inc. v. Commissioner, T.C. Memo 1998-343
3. Brewer Quality Homes, Inc. v. Commissioner, T.C. Memo 2003-200
4. Watson v. United States, 668 F.3d 1008 (8th Cir. 2012)

Appendix A — Task Descriptions

The following tasks were used to build the Cost Approach estimate. Each task is mapped to a Bureau of Labor Statistics Standard Occupational Classification (SOC) code.

Strategic Planning

General and Operations Managers (SOC 11-1021)

Financial Analysis

Accountants and Auditors (SOC 13-2011)

Client Relations

Sales Managers (SOC 11-2022)

Office Administration

Secretaries and Administrative Assistants (SOC 43-6014)

Sample Written Consent

Incorporating the results of this report into the records of your LLC is a best practice.

SAMPLE TEMPLATE

WRITTEN CONSENT OF THE MANAGING MEMBER(S) OF Johnson Consulting LLC

The undersigned, being the managing member(s) of Johnson Consulting LLC (the "Company"), consent to the following action:

_____, 20__ :

RESOLVED, that the Company adopt the report, a copy of which is attached and, in reliance on such report, pay to Sarah Johnson the sum of \$142,500 per year as salary for the duties set forth in such report.

DISCLAIMER NOTICE

This document is provided merely as a sample. It is not guaranteed to comply with state laws regarding corporate governance. Please consult with an attorney for legal advice.